

## Message Text

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21

ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-02 L-03 PA-01

PRS-01 SP-02 USIA-06 AID-05 EB-07 NSC-05 CIEP-01

SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /105 W

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P 280320Z APR 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4439

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR ZINMAN

E. O. 11652: ADS, DECLAS: 7/28/76

TAGS: EAID, EFIN

SUBJECT: DOMESTIC PROCUREMENT FOR ADB-FINANCED PROJECTS

SUMMARY: RE PROCUREMENT OF GOODS AND SERVICES UNDER ADB-FINANCED PROJECTS, ADB MANAGEMENT IS PROPOSING ADOPTION OF UNIFORM PERCENTAGE OF CONTRACT FINANCING REGARDLESS OF WHETHER CONTRACT IS AWARDED TO DOMESTIC OR FOREIGN SUPPLIER, PROVIDED INTERNATIONAL COMPETITIVE BIDDING (ICB) IS EFFECTIVELY CARRIED OUT UNDER BANK'S GUIDELINES FOR PROCUREMENT. MANAGEMENT FURTHER PROPOSES CLEARER ENUNCIATION OF CIRCUMSTANCES JUSTIFYING NON-ICB PROCUREMENT OF DOMESTIC GOODS AND CONSTRUCTION SERVICES UNDER BANK FINANCING. NAC COMMENTS ARE REQUESTED.

1. ADB WORKING PAPER 5-76 ON ABOVE SUBJECT WAS  
POUCHED NAC AGENCIES APRIL 21 AND IS SCHEDULED FOR  
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CONSIDERATION BY BOARD OF DIRECTORS MAY 6. HOWEVER,

USADB IS SEEKING A DELAY OF AT LEAST ONE WEEK. ADB SECRETARY SAID HE WOULD CONFER WITH ADB PRESIDENT UPON LATTER'S RETRUN 29 APRIL.

2. PAPER REVIEWS BANK'S CURRENT POLICIES AND PRACTICES IN REGARD TO DOMESTIC PROCUREMENT FOR BANK-FINANCED PRHJECTS. IT ALSO EXAMINES RELEVANT POLICIES AND EXPERIENCE OF WORLD BANK, PARTICULARLY ITS DOMESTIC PREFERENCE SCHEMES AND ITS FINANCING OF CONTRACTS. ON BASIS OF SUCH REVIEWS, FOLLOWING RECOMMENDATIONS ARE MADE FOR CONSIDERATION OF BOARD OF DIRECTORS:

A. THAT ADB FINANCE SAME AMOUNT OR PERCENTAGE OF A PROCUREMENT CONTRACT REGARDLESS OF WHETHER CONTRACT IS AWARDED TO DOMESTIC OR FOREIGN SUPPLIER, PROVIDED ICB IS EFFECTIVELY CARRIED OUT UNDER BANK'S GUIDELINES FOR PROCUREMENT; PROPOSED CONTRACT FINANCING ARRANGEMENT TO BE REVIEWED REGULARLY.

B. THAT NON-ICB PROCUREMENT OF DOMESTIC GOODS AND CONSTRUCTION SERVICES UNDER BANK FINANCING (IMPORT CONTRACT ONLY) BE PERMITTED PROVIDED:

(I) LOCAL PRODUCTION OR CONSTRUCTION FACILITIES ARE AVAILABLE AT REASONABLE COST, EFFICIENT AND ADEQUATE IN TERMS OF PROMPT DELIVERY;

(II) IT IS CONSIDERED UNLIKELY THAT FOREIGN CONTRACTORS/SUPPLIERS WOULD BE INTERESTED IN BIDDIN, OR THAT ADVANTAGES OF ICB WOULD BE OUTWEIGHED BY ADMINISTRATIVE BURDENS INVOLVED;

(III) PROCEDURES TO BE FOLLOWED FOR DOMESTIC PROCUREMENT (E.G., DOMESTIC COMPETITION, PREQUALIFICATION, ETC.) ARE SATISFACTORY TO BANK; AND

(IV) BORROWER SPECIFICALLY REQUESTS ADOPTION OF THIS PROCEDURE.

C. THAT BANK DEFER ADOPTION OF DOMESTIC PREFERENCE LIMITED OFFICIAL USE

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IN ICB BUT KEEP THIS SUBJECT UNDER REGULAR REVIEW.

3. RE PARA. 2A ABOVE, IN BANK VIEW PRESENT PRACTICE OF FINANCING ONLY FOREX COMPONENT OF CONTRACT AWARDED UNINTENTIONALLY TENDS TO DISCOURAGE DOMESTIC PROCUREMENT. UNDER BANK PROPOSAL, IF LOCAL SUPPLIER/CONTRACTOR WINS CONTRACT AFTER ICB, BORROWER WOULD BE ALLOWED TO RECEIVE FINANCING FROM BANK TO SAME EXTENT THAT

FINANCING WOULD BE PROVIDED HAD FOREIGN SUPPLIER/  
CONTRACTOR WON CONTRACT. ARRANGEMENT WOULD BE COMPARABLE  
TO EXISTING FINANCING PRACTICE IN WORLD BANK GROUP.  
TO EXTENT THAT AMOUNT OF FORE FINANCING EXCEEDS  
ACTUAL FOREX COMPONENT OF CONTRACT, THIS WOULD RESULT  
IN FINANCING OF SOME LOCAL CURRENCY EXPENDITURES  
WITH FOREX. BANK MANAGEMENT CONSIDERS THAT ADOPTION  
OF SUCH FINANCING ARRANGEMENT IS DISTINCT FROM A  
GENERAL POLICY OF LOCAL COST FINANCING AND IS MATTER OF  
OPERATIONAL POLICY WHICH BOARD OF DIRECTORS MAY  
DECIDE. (ON BASIS OF BANK ANALYSIS OF ALL CIVIL  
WORKS CONTRACTS AWARDED IN 1975 THROUGH ICB RE LOANS  
WHICH DIFFERENTIATE BETWEEN LOCAL AND FOREIGN  
CONTRACTORS, LOCAL EXPENDITURE FINANCING TALLING  
\$2.54 MILLION, OR 6 PERCENT OF TOTAL SUCH FINANCING,  
WOULD HAVE RESULTED HAD SAME PERCENTAGE OF CONTRACT  
FINANCING BEEN APPLIED.)

4. RE PARA. 2B ABOVE, NON-ICB OPERATIONAL GUIDELINES  
WOULD BE APPLIED IN PROJECT FINANCING IN SUCH COUNTRIES  
WHERE LOCAL OR DOMESTIC CAPACITY EXISTS TO SUPPLY  
RELEVANT GOODS/SERVICES TO FACILITATE WORK OF  
APPRAISAL MISSIONS AND COULD RESULT IN GREATER ECONOMY  
AND EFFICIENCY IN PROJECT IMPLEMENTATION. HOWEVER,  
THEY DO NOT INVOLVE ANY CHANGE IN BANK'S PRESENT  
PROCUREMENT POLICY AND NO CHANGE IN FINANCING ONLY  
IMPORT CONTENT.

5. RE PARA. 2C ABOVE, BANK DOCUMENT NOTES THAT DOMESTIC  
PREFERENCE IN ICB IS PERMITTED BY WORLD BANK AND  
INTER-AMERICAN DEVELOPMENT BANK TO STIMULATE GROWTH  
OF DOMESTIC INDUSTRIES IN THEIR DMCS. HOWEVER, SINCE  
MOST OF BANK'S MINIMUM DOMESTIC VALUE ADDED REQUIREMENT  
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FOR ELIGIBILITY OF GOODS UNDER LATTER'S PREFERENCE  
SCHEME, INTRODUCTION OF A DOMESTIC PREFERENCE SCHEME  
FOR MANUFACTURED GOODS SIMILAR TO THAT OF WORLD BANK  
WOULD, AT PRESENT, BENEFIT FEW IF ANY OF BANK'S  
BORROWING DMCS. IT WOULD ALSO SEEM THAT ADMINI-  
STRATIVE COSTS OF IMPLEMENTING ANY SUCH SCHEME BY  
BANK MIGHT RESULT. THUS, BANK MANAGEMENT CONCLUDES  
THAT INTRODUCTION OF DOMESTIC PREFERENCE SCHEME AT  
THIS TIME WOULD NOT SERVE USEFUL PURPOSE.

6. USADB WOULD APPRECIATE NAC COMMENT ON (A) PROPOSAL  
TO ADOPT UNIFORM PERCENTAGE OF CONTRACT FINANCING AND  
(B) CLEARER ENUNCIATION OF CIRCUMSTANCE JUSTIFYING  
DOMESTIC PROCUREMENT.  
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## Message Attributes

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